

STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. 18-0974-TF

Tariff filing of Green Mountain Power Corporation requesting a 5.45% increase in its base rates effective with bills rendered January 1, 2019, to be fully offset by bill credits through September 30, 2019

PREFILED SURREBUTTAL TESTIMONY OF
BRIAN E. WINN

ON BEHALF OF THE
VERMONT DEPARTMENT OF PUBLIC SERVICE

October 8, 2018

Summary: Mr. Winn provides an overview of the Department of Public Service's (the "Department") revised recommendation to reduce Green Mountain Power's requested revenue requirement by approximately \$3.4 million. Mr. Winn also responds to the rebuttal testimony of Brian Otley Josh and introduces the rebuttal testimony of the Department's witnesses, and briefly discusses innovative services.

Mr. Winn Sponsors the Following Exhibits:

Exhibit PSD-BEW-4: Memorandum of Understanding between the Department and GMP regarding Joint-Venture solar/storage projects
Department of Public Service
Analysis of Exh. GMP-JC-3 (Rev.)

Surrebuttal Testimony
Of
Brian E. Winn

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1 **Q1. Please state your name, occupation, and business address.**

2 A1. My name is Brian E. Winn. I am the Director of Finance & Economics at the Vermont
3 Department of Public Service (the "Department" or "PSD"). My responsibilities include
4 direction of Utility Finance and Economics group activities for the Department and the
5 State of Vermont. My business address is 112 State Street, Montpelier, Vermont 05620.
6

7 **Q2. Are you the same Brian W. Winn that filed direct testimony in this case on August**
8 **10, 2018?**

9 A2. Yes.
10

11 **Q3. What is the purpose of your testimony?**

12 A3. In my testimony, I provide an overview of the Department of Public Service's revised
13 recommendation to reduce the Green Mountain Power Corporation's ("GMP") requested
14 revenue requirement by approximately \$3.4 million. My testimony also responds to
15 the rebuttal testimony of the prefiled rebuttal testimony of Edmund Ryan and Brian Otley
16 regarding GMP's rate drivers. I also address portions of Josh Castonguay's rebuttal
17 testimony that discuss GMP's innovative services. Finally, I introduce and discuss a
18 Memorandum of Understanding ("MOU") between the Department and GMP that
19 establishes financial assurance requirements for the GMP joint-venture (JV) solar/storage

1 ~~projects that are included in this rate case, and introduces the rebuttal testimony of the~~
2 ~~Department's witnesses, and briefly discusses innovative services.~~

3
4 **Q4. Can you briefly describe how GMP modified its rate request in its rebuttal**
5 **testimony**~~Has GMP modified it's request?~~

6 A4. Yes. Through its rebuttal testimony, GMP's reduced its requested rate filing with the
7 Commission now consists of a base rate base increase to of 5.43 percent. When
8 accounting for the percent which is offset by a onetime bill credit associated with
9 returning excess Accumulated Deferred Income T taxes ("ADIT") as a result of the recent
10 federal tax legislation, GMP now proposes: a net-~~The net result is a rate decrease of 0.9~~
11 percent for rates for a nine month period starting January 1, 2019. GMP's revised rate
12 request accounts for the rate-lock component of the~~However, proposed special contract~~
13 with GlobalFoundries (which is currently under review by the Commission in Case 18-
14 3160). However, GMP's proposed cost-of-service they excludes the impact of the
15 GlobalFoundries sales because GMP believes it is appropriate on their analysis
16 preferring to wait for a final Commission decision its rate design proposal in Case 18-
17 2850, which GMP initially requested to take effect on April 1, 2019~~for the results of the~~
18 pending rate design proceeding. If the special contract with GlobalFoundries is approved
19 by the Commission in its entirety, t~~The total request from GMP would be~~ and the net
20 result would be -be including the impact of the GF contract.

1 Q5. What is the Department's recommendation regarding GMPthe Company's
2 requested rate increase?

3 A5. GMP filed a revised cost-of-service ("COS") model that reflects a \$25.112 million
4 revenue deficiency, which as noted above, accounts for a portion of the special contract
5 with GlobalFoundries. Based on the rate adjustment recommendations that it has made in
6 this case, ~~the~~ Department concludes that the Commission should approve a COS's
7 overall conclusion is that ~~reflects~~ there is a deficiency of \$21.687 million. Therefore, the
8 Company's request of 5.43 percent is reduced to 4.7% percent. It is important to note that
9 the Department's recommended COS includes GlobalFoundries rate-lock from the
10 special contract. The Department supports Commission approval of that contract and will
11 outline the basis of its support in a recommendation that the Department will file in Case
12 18-3160. The table below summarizes the Department's proposed adjustments to GMP's
13 recommended COS:

14 A5.

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Summary of DPS Adjustments to GMP Cost-of-service

	<u>\$1,000</u>	<u>% Inc</u>
Revenue Deficiency per GMP COS	\$25,112	5.45%
DPS Adjustments to COS		
Regional Network Service Costs	(\$398)	
Depreciation & Amortization	(\$1,160)	
Taxes - Federal, State & Gross Receipts	(\$455)	
Return on Utility Rate Base	(\$1,954)	
Other Operating Revenue	\$541	
Total DPS Adjustments	(\$3,426)	

DPS COS Deficiency \$21,687 4.70%

Mr. Jacob Thomas of GDS Associates has prepared a revised COS model to summarize the final rate impact of the Department's recommendations, which is attached to Mr. Thomas's surrebuttal testimony as Exhibit PSD-JMT-3. Mr. Thomas's prepared his COS model by working from the native Microsoft Excel file for Mr. Ryan's Exhibit GMP-ER-1 (rev), which GMP provided to the Department during discovery, begins with the As discussed in his rebuttal testimony, revised COS submitted by GMP in its rebuttal testimony. Mr. Thomas ~~From there he madkes~~ a series of adjustments to rate base and capital spending in GMP's model to account for the Department's recommendations. He also completed various flow-through adjustments to the COS model based feedback that the Department received from GMP ~~based on information included in GMP's filing in materials and discovery responses.~~

Q6. Have the Department and GMP reached agreement on any adjustments proposed in the Department's direct testimony?

A6. Yes. GMP has adopted the Department's recommendation that \$397,682 be removed from Transmission costs to reflect actual Regional Network Service ("RNS") charges, the adjustment to the short term-debt rate component of the ~~c~~Cost-of-capital, and agreed with a portion~~ertain~~ of the Department's proposed capital spending reductions. While GMP does not agree with the Department's recommendations on the Tesla Powerwall program, it did make a slight adjustment to the capital spending for this project due to

1 revised scheduling for the build-out of the Powerwall project. GMP ~~also~~ has proposed to
2 adjust ~~its the way it accountings~~ for RECs held for sale in a manner that is acceptable to
3 the Department. Finally, GMP has agreed to a provided financial assurance mechanism
4 for around the performance of the JV Storage/Solar projects, which I discuss at the end of
5 this testimony. I will provide additional details on some of these items later in my
6 testimony.

7
8 **Q7. Please briefly summarize the Department's proposed adjustments to GMP's COS of-**
9 **of-service?**

10 A7. The Department continues to recommend that the Commission remove the Tesla
11 Powerwalls, Heat Pump Water Heaters, certain T&D projects and a portion of blanket
12 projects from rate base in the case, for a total rate base reduction of \$34.1 million. I will
13 provide additional details on these items later in my testimony.

14
15 **Q8. ~~Has the rebuttal testimony of GMP changed the Departments recommendations~~**
16 **~~regarding GMP's capital planning and energy procurement processes?~~**

17 ~~A8. The Department continues to recommend that the Commission require GMP to: (1)~~
18 ~~consider all reasonable alternatives to proposed capital projects and solicit Requests for~~
19 ~~Proposals ("RFPs") when multiple vendors are available; (2) maintain adequate~~
20 ~~contemporaneous information on the capital project planning and project approval~~
21 ~~processes; (3) improve its methods for prioritizing reliability projects; and (4) follow a~~
22 ~~more structured process for procuring energy and capacity resources including soliciting~~

Commented [BD1]: Brian,

I suggest removing this Q&A on capital process. With the exception the power supply portion (which Ed addresses in his testimony) it repeats the recommendations from our direct testimony without any additional analysis or direct response to GMP's rebuttal testimony. The point is already in your direct testimony, and we should try to keep surrebuttal testimony as direct as possible

1 RFPs. However, Edward McNamara notes that with respect to item number (4) GMP and
2 the Department have begun discussions on how to collaborate to improve the process.
3

4 **Rate Driver Analysis**

5 **Q9.Q8. With respect to your rate driver analysis, did GMP directly challenge your**
6 **recommended approach to comparing rate drivers over a more expanded time**
7 **period than a more limited period between this case and last year's rate case****Did**
8 **GMP rebut your conclusion that an analysis of the rate drivers focusing on the**
9 **numbers in this case would require too many adjustments to the nine-month test**
10 **period and rate period and therefore the results are not likely to be meaningful?**

11 **A9.A8.No.** When I presented the rate driver analysis in my direct testimony, I focused on a
12 broader time period as an attempt to mitigate the affect of short-term anomalies that may
13 have been present in or between the COS approved in Case 17-3112 and GMP's proposed
14 nine-month COS in this case. I do not understand GMP's rebuttal testimony to be critical
15 of my decision to focus on a broader time period.**No.**
16

17 **Q10.Q9. How do you respond to Mr. Brian Otley's specific criticism of your analysis**
18 **of the main cost drivers of GMP rate increases?**

19 **A9.** Mr. Brian Otley testifies states that GMP strongly disagrees the conclusion that GMP rate
20 base growth is a key driver of cost growth from 2013 to 2018. He proceeds and then
21 provides a narrative description of all the benefits of GMP's capital spending. My
22 concern with Mr. Otley's rebuttal testimony is it His testimony consists of general

1 statements and cursory analysis. Mr. Otley did not provide a numerical analysis to
2 support his claim that GMP's capital spending is not a key driver of costs. In fact,
3 Mr. Otley claims that some GMP investments reduce costs to rate payers, but produces
4 no data to back up his claims. In response to a discovery request to produce any analysis
5 he conducted to support his claims, he provided additional narrative and a one-page
6 graphic with no supporting data.

7
8 A10: I believe that Mr. Otley's rebuttal testimony reflects a misunderstanding of the points
9 that I intended to convey in my direct testimony on the rate driver analysis. I did not directly
10 challenge the rate payer value or necessity of GMP's capital spending in this analysis, rather I
11 intended to demonstrate that GMP's rate base has been growing on a steady upward trajectory.
12 My rate driver analysis is intended to be a clinical, objective review of the relevant numbers,
13 which show that GMP's rate base has grown and that this growth is putting upward pressure
14 on GMP's rates.

15
16 Q11-Q10. Does the Department still believe the analysis of the rate trends for the period
17 2013 through 2018 presented in your direct testimony, is an accurate
18 representation of the key cost drivers contributing to rate increases.

19 A11-A10. Yes. The Department continues to believe the analysis of the rate trends for the
20 period 2013 through 2018 presented in my direct testimony, and repeated in the chart
21 below, is an accurate representation of the key cost drivers contributing to rate increases.

Comparison of Changes to GMP Cost of Service - 2013 Recorded to 2018 Settlement

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In \$1,000s

	2013 Test Year Actual	2018 Settlement	Dollar Change
Purchased Power and Production	\$322,603	\$289,154	(\$33,449)
Net Transmission	\$31,676	\$28,878	(\$2,798)
O&M Platform, Other O&M and Savings	\$117,541	\$104,571	(\$12,970)
Rate Base Related Costs			
Depreciation & Amortization & Other	\$45,611	\$53,270	\$7,659
Taxes - Federal, State & Municipal	\$46,809	\$67,487	\$20,678
Return on Utility Rate Base	\$66,673	\$98,535	\$31,862
Less Affiliate & Other Operating Revenue	(\$33,282)	(\$21,583)	\$11,699
Gross Revenue & Fuel Gross Receipts Taxes	\$6,094	\$6,266	\$172
Cost to Ultimate Consumers	\$603,724	\$626,578	\$22,854

Over the period, Purchased Power Costs declined by \$33.4 million and O&M has declined by almost \$13 million. Net Transmission costs, defined as transmission O&M net of equity in earnings from subsidiaries have remained relatively stable with a \$2.8 million decline. However, these cost reductions have been more than offset by a \$60.2 million increase in rate base (capital and investment) related costs. I have reproduced this chart in this surrebuttal testimony to make a clear comparison with the analysis that I complete below.

Q12:Q11. Have you completed additional analysis to address the concerns raised by

Mr. Edmund Ryan in his rebuttal testimony?

A12:A11. Yes. In his rebuttal testimony, Mr. Eddie Ryan disagrees with objects the manner in which to way the Department treated transmission costs and describes two methods that

he believes would be an acceptable approach to the treatment of transmission costs.

Specifically, On pages 13 and 14 of his rebuttal he states:

"GMP believes that the appropriate rate drivers grouping for Transco/VELCO investments involves either: 1) separating the actual transmission operating expenses paid to ISO-NE and Transco/VELCO from the cost and returns created from GMP's ownership investments in Transco/VELCO (which is the way GMP looks at it as reflected in the chart that GMP showed in the rate case workshop); or 2) combining all three together in a single analysis."

I agree with Mr. Ryan's logic, but I do not agree that~~The Department sees the logic of both methods described by Mr. Ryan but does not agree with Mr. Ryan that~~ GMP has presented the transmission costs consistent with the first method described by Mr. Ryan.

~~Q13: Q12.~~ Can you explain your disagreement with Mr. Ryan regarding the~~Do you~~
agree with the method GMP uses to group transmission costs in its analysis of the
key factors driving rate increases?

~~A13: A12.~~ Yes~~No~~. The table below shows the separate cost components that make up the Net Transmission (including rate base costs) line used in the Department's analysis and a calculation of the rate base related costs of the investments in VELCO/Transco:

Net Transmission (Including Rate Base Costs)
In \$1,000s

	2013 Test Year Actual	2018 Settlement	Dollar Change
Operating Expenses	\$72,575	\$112,799	\$40,224
Equity in Earnings of Transmission Affiliates	(\$40,899)	(\$83,921)	(\$43,022)
Taxes and Return on Transmission Estimate	<u>\$26,946</u>	<u>\$42,938</u>	<u>\$15,991</u>
Total	\$58,622	\$71,816	\$13,194

1 Mr. Ryan states that GMP combines equity in earnings from Transmission with the taxes
2 and return components. However, GMP they does not show the resulting numbers
3 separately. Rather, GMP they combines Equity in Earnings from all sources with the
4 total return on rate base. In my opinion, this approach has the effect of ~~The effect of the~~
5 ~~way that GMP has chosen to group the costs is to~~ masking the contribution of GMP's ~~sits~~
6 non-transmission rate base investments ~~to the overall~~ increase in costs. Furthermore,
7 presenting the analysis in terms of a weighted percentages makes it difficult to determine
8 the nominal dollar contribution to increasing rates. Finally, when VELCO presents the
9 cost of transmission, ~~it is~~ they are careful to show the O&M costs and the dividends
10 ~~(which show up as equity in earnings from subsidiaries on GMP statements)~~ together.
11 This is the approach that I used in my direct testimony.

12
13 **Q14. Q13. Please describe the results of the analysis showing each of the transmission**
14 **cost components combined; the second method suggested by— Mr. Ryan's method**
15 **number 2.**

16 ~~A14. A13.~~ For this analysis, ~~I the Department~~ used the information provided by GMP to
17 separate the investment in the transmission subsidiaries (VELCO/Transco) from the rest
18 of GMP's rate base costs and repeated the analysis shown in my direct testimony. The
19 advantage of this analysis ~~is~~ that it more accurately reflects the total cost of
20 transmission paid by GMP ratepayers. The results of this analysis are presented in the
21 table below.

Comparison of Changes to GMP Cost of Service - 2013 Recorded to 2018 Settlement
In \$1,000s

	<u>2013 Test Year Actual</u>	<u>2018 Settlement</u>	<u>Dollar Change</u>
Purchased Power and Production	\$322,603	\$289,154	(\$33,449)
Net Transmission (Including Rate Base Costs)	\$58,622	\$71,816	\$13,194
O&M Platform, Other O&M and Savings	\$117,541	\$104,571	(\$12,970)
Rate Base Related Costs (Excluding Transmission)			
Depreciation & Amortization & Other	\$45,611	\$53,270	\$7,659
Taxes - Federal, State & Municipal	\$38,818	\$40,181	\$1,363
Return on Utility Rate Base	\$47,717	\$68,686	\$20,969
Less Affiliate & Other Operating Revenue	(\$33,282)	(\$21,583)	\$11,699
Gross Revenue & Fuel Gross Receipts Taxes	<u>\$6,094</u>	<u>\$6,266</u>	<u>\$172</u>
Cost to Ultimate Consumers	\$603,724	\$626,578	\$8,637

The analysis shows again that over the period, Purchased Power Costs declined by \$33.4 million and O&M has declined by almost \$13 million. Net Transmission costs, defined as transmission O&M, plus Return on Rate base and Income taxes related to GMP's investment in VELCO and Transco, net of equity in earnings from subsidiaries, increased by 13.2 million. However, GMP's rate base related costs, even excluding transmission, amount to a \$30 million increase. While a lower figure than I presented in my direct testimony, it is still Again, the single largest cost driver of rate increases over the period.

Q15. Do you agree with the method GMP to group costs in its analysis of the key factors driving rate increases?

A15. No. Grouping the equity in return on transmission investments with GMP's overall return rate base is contrary to the methods described by Eddie Ryan as being the appropriate way of presenting the transmission costs. The effect is to mask the

1 contribution of GMP rate base costs to increase in rates. Furthermore, presenting the
2 analysis in terms of a weighted percentages makes it difficult to determine the nominal
3 dollar contribution to increasing rates. VELCO presents the cost of transmission they are
4 careful to show the O&M costs and the dividend (equity in earnings from subsidiaries on
5 GMP statements) together. |

Commented [BD2]: Brian, unless I am missing something, the Q&A that I suggest removing repeats the point you've already made above.

6 |
7 **Q16: Q14. How do you respond to Mr. Brian Otley's claims, on pages 2 and 3 of his**
8 **rebuttal testimony, that you implied GMP's capital spending was increasing?**

9 ~~A16: A14. I think that this portion of Mr. Otley's testimony also~~ This is a reflects a
10 ~~misunderstanding~~ mischaracterization of my direct testimony. My testimony regarding
11 GMP's comments about their level of capital spending were made within the context of
12 my ~~during the discussion of rate drivers~~ what is causing rates to increase. I directly stated
13 that rate base is increasing, and I referred to the level of capital spending and investments
14 projected by GMP to a rating agency. Even at the \$85 million level of capital spending
15 proposed by GMP, rate base will continue to increase unless depreciation rates are
16 adjusted upward. Furthermore, GMP continues to make investments in subsidiaries
17 (which are capitalized and included in rate base), but are not subject to \$85 million limit
18 discussed by Mr. Otley. Those investments ~~which are not included in this commitment,~~
19 ~~and which~~ will also increase rate base. This will put upward pressure on rates.
20

1 ~~Q17-Q15.~~ In response to Question 6 on page 4 of his rebuttal testimony, Mr. Brian

2 ~~Otley's rebuttal states that you criticized GMP's long-term incentive program? Did~~
3 ~~you intend to criticize GMP's long-term incentive plan?~~

4 ~~A17-A15.~~ No, Mr. Otley. This yet another mischaracterizes this portion of my testimony

5 ~~of my testimony by Mr. Otley. I simply cited the Long-term incentive plan targets as an~~
6 ~~indication that rate base is likely to continue to increase. To be clear I have no issue with~~
7 ~~the structure of GMP's long-term incentive plan. The GMP plan is substantially similar~~
8 ~~to the long-term incentive plans of many investor owned utilities. Long-term incentive~~
9 ~~plans are adopted to align management's incentive with the goals of investors to increase~~
10 ~~the value of the firm. For most investor owned utilities long-term incentives are tied to~~
11 ~~stock price and/or dividend growth. Generally stock prices and/or dividend increase~~
12 ~~when earnings increase. Since GMP is not publicly traded, the plant values included in~~
13 ~~their long-term incentive plan are a logical replacement for the stock price. As the level~~
14 ~~of assets increase the rate base will generally increase. Increasing rate base will result in~~
15 ~~increasing earnings and an increase in the value of the firm.~~

16
17 ~~Q18-Q16.~~ Please summarize your conclusions on the rate driver analysis.

18 ~~A18-A16.~~ There is absolutely no doubt that from 2013 to 2018 the growth in GMP rate base
19 (even excluding costs associated with the investments in transmission subsidiaries) is the
20 primary driver rate increases. I do not believe that it is not appropriate to isolate one
21 component of transmission costs while burying the offsetting equity in earnings from

1 affiliates in a different category of costs. Again, this analysis confirms that the
2 Department's focus on GMP's capital costs and investments in subsidiaries is warranted.

3
4 **Proposed Capital Spending & Investments**

5
6 **Q19:Q17. Do you support the proposed adjustment to Transmission, Distribution and**
7 **General Plant rate base discussed in the testimony of Kevin Mara of GDS**
8 **Associates?**

9 A19:A17. Yes. In his surrebuttal testimony, Mr. Mara states that he revises his overall capital
10 reduction recommendations to include in rates GMP's project for the Direct Transfer Trip
11 protection to the Ottawaquechee Hydro facility. Otherwise, Mr. Mara maintains the capital
12 spending recommendations that he presented in his direct testimony. I support Mr. Mara's
13 recommendations, which are reflected in the Department's COS filed as Exhibit PSD-
14 JMT-3. I am recommending that the Commission adopt the adjustments to T&D capital
15 spending included in the testimony of Kevin J. Mara, of GDS Associates Inc., which total
16 \$7.1 million. Mr. Mara responds to GMP's rebuttal testimony around T&D planning,
17 confirms the rationale for excluding this amount. The Department recommends the
18 Commission adopt the resulting adjustments totaling \$12.16 million.

19
20 **Q20:Q18. Has GMP's rebuttal testimony altered the Department's recommendation**
21 **that the Heat-Pump Water Heater (HPWH) products be excluded from rate base?**

1 A18. No. The Department's analysis of the information provided in Josh Castonguay's Exhibit
2 GMP-JC-3(rev) shows that the project spreadsheet does produce a nominal ratepayer
3 benefit. However, that benefit is highly dependent on the assumption of incremental
4 energy use for HPWHs. In GMP's discovery response ~~this response to DPS3.Q14.d.~~
5 Mr. Josh Castonguay and Craig Ferreira of GMP indicated that GMP does not have
6 information on what types of water heaters the new Heat-Pump Water heaters replaces
7 (i.e. whether the replaced heaters use fossil fuels or electricity). If the new HPWHs
8 replaced electric heat pumps, usage may actually go down ~~go down~~, not up, thereby
9 eliminating any benefits and potentially even resulting in a slight cost in terms of lost
10 margin from sales. Additionally, GMP has not implemented the technology required to
11 control these devices for the benefit of all rate payers. These devices are readily available
12 consumer products. ~~For this project,~~ ease the concerns about a regulated monopoly
13 competing in an unregulated business should outweigh the minor benefits. ~~At~~
14 allowing extend rate base treatment for commercially available, behind-the-meter
15 consumer products; solely because they may provide incremental benefits creates would
16 establish a misaligned, open-ended regulatory policy ~~creates too many complications~~. If
17 that were the case, there would be no logic for excluding toasters from rate base.

18 A20.

19 Until GMP has implemented the ability to control these devices for the benefit of all
20 ratepayers and can confirm the stated benefits, the Department recommends excluding
21 them from rate base to remedy the competitive advantage created by GMP's monopoly
22 position and the regulated rate of return on the investment.

1

2 ~~Q21.~~ Q19. Have the rebuttal testimony of Brian Otley or Josh Castonguay's rebuttal
3 testimonies changed the Department's recommendation that the Tesla Powerwall
4 products be excluded from rate base?

5 A24-A19. No. The Department still has concerns not just about the scale of the pilot project,
6 but also about whether the project will yield any benefits to non-participating ratepayers
7 remain. As discussed in more detail below, after conducting a thorough Through analysis
8 of the spread-sheet used to develop Exhibit GMP-JC-3 (Rev.) included in rebuttal
9 testimony of Joshua Castonguay, the Department has concluded clearly established that
10 non-participating rate payers will provide a significant subsidy to Powerwall program
11 participants in the near term future. GMP's own net-present-value ("NPV") analysis
12 shows that non-participating customers will not see a positive NPV until year ten. One
13 of the Department's criteria for including commercially available consumer products in
14 rate base is that no such subsidy occur. This factor alone should warrant keeping the Tesla
15 Powerwall project out of rate base in this case. However, Additionally, in his surrebuttal
16 testimony on behalf of the Department, Christopher C. Dawson of GDS Associates
17 explains how GMP's projections likely overstate the benefits of the program and
18 concludes that "the Powerwall program cannot be deemed necessary or cost effective."
19

19

20 ~~Q22.~~ Q20. First can you please provide additional details on the Department's
21 analysis showing that non-participating rate payers will provide a significant
22 subsidy to Powerwall program participants.

1 ~~A22-A20.~~ The Department sorted the information provided in Exhibit GMP-JC-3 (Rev.) by
2 product line. ~~The complete analysis is provided in Exhibit PSD-BEW 4.~~ The results for
3 the Tesla Powerwall project are shown in the table below.

Tesla Powerwall Pilot Cost(Benefit) Analysis - 2019 Rates

Monthly Revenue	(\$173,070)
Sales	(\$219,000)
Power Supply Savings	(\$682,353)
Depreciation Expense	\$972,404
Return on Rate Base	<u>\$764,003</u>
Subtotal Ratepayers Cost(Benefit)	\$661,984
Innovative Program O&M*	<u>\$175,757</u>
Total Ratepayers Cost(Benefit)	\$837,741

*Allocated based on the capitalized A&G from GMP in discovery response DPS3.Q10.c.

4
5 The table above demonstrates that, even before including Innovative Program O&M
6 and assuming the Power Supply Savings projected by GMP, current ratepayers are
7 subsidizing customers participating in the Powerwall innovative pilot by at least
8 \$661,984 during the rate year. GMP did not provide the Department a requested
9 allocation of Innovative Program O&M. In the absence of this data, so the Department
10 allocated this cost based on the Powerwall program's share of Capitalized A&G.
11 Assuming this allocation of Innovative program O&M, the amount of the subsidy
12 increases to over \$800,000 during the rate year. The Department's analysis also excludes
13 Capitalized A&G, which as I discuss below, as it is not benefit to ratepayers.
14

1 ~~Q23-Q21.~~ Please explain why capitalizing A&G does not provide a saving or benefit to
2 ratepayers.

3 ~~A23-A21.~~ Simply put, capitalizing A&G means that the ratepayers will pay A&G over time
4 instead of in the year the cost is incurred. For example, if GMP capitalizes a dollar of
5 A&G ratepayers will pay a dollar less in O&M in that year. However, GMP will add that
6 dollar to rate base and customers will pay that back that dollar in depreciation over time.
7 Because GMP adds capitalized A&G to rate base, customers will also pay return and
8 taxes on the undepreciated amount of A&G. On an NPV net present value basis, the
9 amount ratepayers pay for capitalizing a dollar of A&G is approximately equal to
10 expensing a dollar of A&G. There are no savings to rate payers over time. Any change
11 in rates is temporary.

12 The Department is concerned that GMP has included the impact of capitalized A&G as a
13 savings and represented that GMP investors will share that benefit through the "O&M
14 Platform" that was approved by the Commission in its final order in Docket
15 7770.¹ savings sharing mechanism adopted in docket If that contention is true,
16 during the period of 50/50 sharing under the O&M Platform, ratepayers are paying
17 approximately \$1.50 for every \$1.00 of capitalized A&G on present value basis. While
18 the Department is not making a specific rate adjustment recommendation regarding
19 capitalized A&G in this case, it is an issue of concern that the Department will continue
20 to monitor and potentially raise in future rate proceedings. The Department will need to

¹ I discuss the O&M Platform in more detail on pages 6-7 of my direct testimony.

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1 do additional research on the scope of this issue and reserves the right to address this
2 issue in a future proceeding.
3

4 **RECs Held for Sale**

5 **Q24: Q22. In his direct testimony, Mr. McNamara's recommended that REC inventory**
6 **be removed from Rate Base. Has GMP accepted that recommendation?**

7 **A24: A22.** Yes. GMP generally supports the ratemaking proposal to move away from an
8 inventory approach to REC accounting where there is no contractually assigned price.
9 For RECs currently in inventory. GMP has agreed to earn a return on this inventory
10 balance based on their short-term debt bank loan interest rate, and GMP also proposes to
11 work with the Department to develop a plan to transition away from the current REC
12 inventory approach, and the disposition of REC's currently in inventory, as part of ~~its~~their
13 Multi-Year Rate Plan.
14

15 **Capital Structure and Cost of Capital**

16 **Q25: Q23. Does GMP agree with Mr. Baudino's recommendation to lower GMP's cost**
17 **of debt?**

18 **A25: A23.** Yes. In ~~its~~their revised COS, GMP updated interest rates to reflect the actual
19 interest rates on the September and December 2018 long-term debt issuances a 4.50%
20 interest rate on the remaining 2 other projected long-term debt issuances.
21

22 **Storage/Solar JV Projects**

1 Q26-Q24. Have the Department and GMP agreed on an appropriate financial
2 assurance for the three Joint-Venture solar/storage projects included in this rate
3 case? Please summarize the Department's concerns with the Storage/Solar JV
4 projects?

5 A26-A24. Yes. In its direct testimony, the Department identified a series of concerns
6 regarding the underlying assumptions included in GMP's financial analyses for
7 the three JV projects included in this rate case. The Department recommended
8 that the Commission allow these projects into rates only if GMP provides a
9 financial assurance to protect rate payers from potential downside risk associated
10 with these projects. Both GMP and the Department also presented testimony on
11 this issue in Case 17-5003-PET, which involves the Section 248 review of the
12 proposed Milton JV project. On September 25, 2018, GMP and the Department
13 filed an MOU in Case 17-5003-PET which establishes financial and performance
14 assurance mechanisms that will apply to all three JV projects included in this
15 case. I have attached a copy of this MOU as Exhibit PSD-BEW-4. The
16 Department is satisfied that the financial and performance assurance mechanisms
17 in the MOU sufficiently addresses the concerns raised by the Department
18 regarding JV projects. The Department therefore now recommends that they be
19 included in rate base so long as the Commission adopts the financial and
20 performance assurance mechanisms included in the MOU. The Department's view
21 is there is a need to ensure a balance of equities with respect to these projects and
22 that GMP should provide an assurance for some portion of the benefits. The

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1 company did not establish an operational need nor engage in a competitive
2 procurement process for the battery components of the projects. The Department
3 was provided with no contemporaneous documentation demonstrating the GMP
4 evaluated alternatives to these projects. Finally, Mr. Dawson of GDS Associates
5 has raised concerns about the analysis showing that the project will provide
6 economic benefits since the market price forecasts were generally optimistic.

7 Ratepayers bear a risk associated with the net present value ("NPV") due to the length of the
8 payback time and the volatility associated with the market price risk and the performance
9 of the asset. On the other hand, GMP and the project investors will earn returns with
10 little risk. These returns are backstopped by rate payer money and thus, absent
11 safeguards, the rate payers would be asked to bear a disproportionate amount of risk as
12 compared to GMP and the project investors.

13
14 **Q27:Q25. Will the risk sharing mechanism provided for in the MOU adopted in Docket**
15 **17-5003-PET provide the financial assurance sought by the Department?**

16 A27. A25. Yes. The MOU provides a mechanism to track the projects's performance with
17 respect to the realized value associated with the Regional Network Service, Forward
18 Capacity Market and Regulation Service from these projects. Annually, GMP will
19 prepare a 10-year NPV forecast, updated for the actual values received to date.- In years
20 five and ten, these values will be compared to the original NPV estimate, and if the
21 difference is greater than a 15 percent dead band, a rate adjustment will be calculated.
22 The rate adjustment calculation will segregate the volume risk from price risk. GMP will

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1 assume different portions of each risk. The MOU also requires GMP to adopt a more
2 comprehensive process to identify the system need, consider all viable alternatives and
3 conduct competitive procurement for contractors and components. ~~Further details on the~~
4 ~~operation of the financial assurance mechanism can be found in the MOU and~~
5 ~~attachments Exhibit _____.~~ The Department's position is that this MOU provides
6 adequate financial assurance for the rate payers.

7
8 **Q28. Q26. Does the Department still have reservations about the way GMP is**
9 **accounting for the year-one Hypothetical Liquidation at Book Value ("HLBV") and**
10 **developer fee?**

11 ~~A28.~~ A26. Yes. In his direct testimony, Terry Myers of GDS Associates, Inc. raises a concern
12 regarding how GMP is treating the HLBV and the up-front developer fee when its
13 ~~Storage/Solar Joint Venture ("JV") projects are put in service and other concerns~~
14 ~~regarding potential IRS treatment of GMP's proposed accounting for these projects. I also~~
15 ~~discussed these points in my direct testimony. On page 9 of his rebuttal testimony, Mr.~~
16 ~~Kirk Shields acknowledged that "whether the IRS will impose a recapture of the~~
17 ~~[investment tax credit]" is a financial risks that is "GMP's, meaning that if [it] occurs~~
18 ~~GMP will bear the costs without the potential of recovery or relief from customers." The~~
19 ~~concerns identified by Mr. Myers are abstract and if they occur, they will affect a future~~
20 ~~rate proceeding. However, the Department raised these issues to the Commission to~~
21 ~~ensure that if the risks identified by Mr. Myers materialize, then it is the Department's~~
22 ~~expectation that GMP, not its ratepayers, will be responsible for assuming the financial~~

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1 responsibility from those risks. Based on Mr. Shields's testimony, it appears that GMP
2 agrees with that position. GMP currently uses this fee to reduce amortization, which
3 benefits ratepayers in the first year but results in higher costs in subsequent years,
4 resulting in an intergenerational inequity. The traditional ratemaking approach these
5 benefits would be to amortize them over the life the projects. Mr. Myers also indicates
6 that the IRS may determine that this upfront treatment violates its normalization rules. If
7 that is the case, GMP could lose its ability to use accelerated depreciation. The MOU
8 does not address this topic but, GMP stated in its rebuttal testimony that this risk will be
9 borne by GMP investors and not ratepayers.

10
11 **Q29-Q27. Does this conclude your testimony?**

12 **A29. A27. Yes.**

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